# Attn: Boeing (BA) Stock Investors

Have you considered the recent $5b 6% Mandatory Convertible?

A high-income equity alternative with attractive risk-reward (pdf)

GSR Research

# Tactical Trade Idea: Boeing 6% Mandatory Preferred, An Attractive High Income Equity Alternative to Position for Boeing's Turnaround

**U.S. Convertibles**

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## Boeing (BA) 6% Mandatory Convertible for Equity Investors

As part of its recent mega capital raise, Boeing issued a $5bn face 6% mandatory convertible preferred on 10/29/24. Boeing's operational and performance issues have been widely discussed with the stock currently at ~$140 versus an all time high of $381 in March 2019 and 52W high of ~$264 in Dec 2023. The stock is currently hovering near its 52W low. Average 12M consensus target currently stands at ~$180 reflecting ~29% upside potential but the turnaround path could remain turbulent. The mandatory is an attractive alternative for equity investors seeking Boeing exposure and high current income (5.89% vs 0% for the stock). The income component dampens the downside over the life of the security while still allowing investors to participate in a large part of the upside. The analysis and risk-reward table below has the details. The mandatory carries an attractive risk-reward relative to common. Through maturity for a +/-30% move in common the mandatory is projected to return +21.7%/-15.1%

## High Income Mandatory Convertible – A Concise Primer

- Mandatory convertible preferreds are preferred securities that have a fixed life, typically three years. At maturity the security will mandatorily and automatically convert into shares of the underlying equity.
- Each preferred stock has a certain face value on which the higher preferred dividend is paid quarterly. Note that preferred dividends take precedence over common dividends i.e. the preferred dividends cannot be cut or stopped unless all common dividends are halted. This affords mandatory convertible investors some protection buffer against dividend cuts/halt. Typically, the dividends are cumulative.
- In exchange for the higher dividends, investors give up some of the upside relative to equity but the instrument is still fairly equity sensitive. At maturity, investors receive
    - a high fixed conversion ratio if the common stock is at or below the low strike price
    - a lower fixed conversion ration if the common stock is at or above the high strike price
    - linearly variable number of shares between the high and low conversion ratio when the common stock is between the low strike and high strike prices such that the value equals the face value
- Dividend protection: If the issuer raises the common dividend above the initial threshold the conversion ratio of the mandatory preferred will be adjusted upward as per a proportion-based formula.
- Call protection: Mandatory convertible securities typically have no call feature and are not callable for life.
- The income that investors receive is 'Qualified Dividend' income and is therefore taxed at the lower capital gains rate rather than as ordinary income that interest income is subject to. So, on an after-tax basis investors benefit by keeping more of the dividends relative to corporate bonds with equivalent coupons.
- By investing in mandatory convertibles investors benefit from gaining exposure to stocks and at the same time receive higher income to satisfy current income investment goals. Otherwise, to gain income investors are restricted to a certain set of lower growth, high dividend paying equities only. Mandatories open up an avenue to invest in higher growth low common dividend equities but with a chunky income component.

Mandatory vs. Stock Total Return: BA 6% Projected to Deliver Competitive Upside Returns with High Current Income and Dampened Downside

| Stock Price Change at Maturity (%) | Stock Price | 12 Stock Dividends over Life | Mand. Terminal Price | 12 Mand. Dividends over Life | Stock Total Return 10/15/27 | Mand Total Return 10/15/27 |
|---|---|---|---|---|---|---|
| -80% | $ 27.99 | $ - | $ 9.79 | $ 9.00 | -80.0% | -63.1% |
| -70% | $ 41.99 | $ - | $ 14.68 | $ 9.00 | -70.0% | -53.5% |
| -60% | $ 55.99 | $ - | $ 19.58 | $ 9.00 | -60.0% | -43.9% |
| -50% | $ 69.99 | $ - | $ 24.47 | $ 9.00 | -50.0% | -34.3% |
| -40% | $ 83.98 | $ - | $ 29.37 | $ 9.00 | -40.0% | -24.7% |
| -30% | $ 97.98 | $ - | $ 34.26 | $ 9.00 | -30.0% | -15.1% |
| -20% | $ 111.98 | $ - | $ 39.16 | $ 9.00 | -20.0% | -5.5% |
| -10% | $ 125.97 | $ - | $ 44.05 | $ 9.00 | -10.0% | 4.1% |
| 0% | $ 139.97 | $ - | $ 48.95 | $ 9.00 | 0.0% | 13.7% |
| 10% | $ 153.97 | $ - | $ 50.00 | $ 9.00 | 10.0% | 15.8% |
| 20% | $ 167.96 | $ - | $ 50.00 | $ 9.00 | 20.0% | 15.8% |
| 30% | $ 181.96 | $ - | $ 53.02 | $ 9.00 | 30.0% | 21.7% |
| 40% | $ 195.96 | $ - | $ 57.10 | $ 9.00 | 40.0% | 29.7% |
| 50% | $ 209.96 | $ - | $ 61.18 | $ 9.00 | 50.0% | 37.7% |
| 60% | $ 223.95 | $ - | $ 65.26 | $ 9.00 | 60.0% | 45.7% |
| 70% | $ 237.95 | $ - | $ 69.34 | $ 9.00 | 70.0% | 53.8% |
| 80% | $ 251.95 | $ - | $ 73.42 | $ 9.00 | 80.0% | 61.8% |
| 90% | $ 265.94 | $ - | $ 77.50 | $ 9.00 | 90.0% | 69.8% |
| 100% | $ 279.94 | $ - | $ 81.57 | $ 9.00 | 100.0% | 77.8% |
| 110% | $ 293.94 | $ - | $ 85.65 | $ 9.00 | 110.0% | 85.8% |
| 120% | $ 307.93 | $ - | $ 89.73 | $ 9.00 | 120.0% | 93.8% |
| 130% | $ 321.93 | $ - | $ 93.81 | $ 9.00 | 130.0% | 101.8% |
| 140% | $ 335.93 | $ - | $ 97.89 | $ 9.00 | 140.0% | 109.8% |
| 150% | $ 349.93 | $ - | $ 101.97 | $ 9.00 | 150.0% | 117.8% |

| Boeing (BA) 6% Mandatory Pfd | |
|---|---|
| Issuer | Boeing Co/The |
| Common Ticker | BA |
| Mandatory Ticker | BA A |
| Sub Industry | Aerospace & Defense |
| Mandatory Shares Outstanding | 100,000,000 |
| Par Amount | $50 |
| Size ($mn) | $5,000 |
| Years to Maturity | 2.92 |
| Maturity | 10/15/2027 |
| # of Mand. Cpns Remaining | 12 |
| Dividend Protection Threshold ($/q) | $0.00 |
| Current Common Dividend ($/q) | $0.00 |
| Mandatory Cpn (%) | 6.000% |
| Mandatory Current Yield (%) | 5.89% |
| Stock Dividend Yield (%) | 0.00% |
| Mandatory - Common Inc. Pickup (%) | 5.89% |

| Key Ratios | |
|---|---|
| Max Conversion Ratio | 0.3497 |
| Low Strike ($) | $142.98 |
| Min Conversion Ratio | 0.2914 |
| High Strike ($) | $171.59 |
| Initial Conversion Premium | 20.% |
| Conv. Ratio Based on Current Stx Px | 0.3497 |

| Mandatory Pricing & Profile | |
|---|---|
| Convert Price | $50.95 |
| Stk Px Ref ($) | $139.97 |
| Parity ($) based on Est. Spot Ratio | $48.95 |
| Premium ($) based on Est. Spot Ratio | $2.00 |
| Premium (%) based on Est. Spot Ratio | 4.09% |
| Total Remaining Mand. Cpns ($) | $9.00 |
| Delta (%) | 79.2% |

| Stock Price Action | |
|---|---|
| Current Stock Price | $139.97 |
| 52 Week High | $267.54 |
| 52 Week High Date | 12/21/2023 |
| 52 Week Low | $139.1 |
| 52 Week Low Date | 11/13/2024 |
| Current vs. 52W High | -47.7% |
| Current vs. 52W Low | 0.6% |
| 12M Consensus Target Price | $179.88 |
| % to 12M Consensus Target Price | 28.5% |

# Key Financials Snapshot

| In Millions of USD<br>12 Months Ending | FY 2019<br>12/31/2019 | FY 2020<br>12/31/2020 | FY 2021<br>12/31/2021 | FY 2022<br>12/31/2022 | FY 2023<br>12/31/2023 | Current/LTM<br>09/30/2024 | FY 2024 Est<br>12/31/2024 | FY 2025 Est<br>12/31/2025 |
|---|---|---|---|---|---|---|---|---|
| **Market Capitalization** | **183,373.2** | **124,651.4** | **118,560.9** | **113,834.9** | **158,876.2** | **104,581.5** | | |
| - Cash & Equivalents | 10,030.0 | 25,590.0 | 16,244.0 | 17,220.0 | 15,965.0 | 10,470.0 | | |
| + Preferred & Other | 317.0 | 241.0 | 153.0 | 35.0 | 5.0 | -10.0 | | |
| + Total Debt | 28,532.0 | 64,935.0 | 59,641.0 | 58,582.0 | 54,121.0 | 57,650.0 | | |
| **Enterprise Value** | **202,192.2** | **164,237.4** | **162,110.9** | **155,231.9** | **197,037.2** | **151,751.5** | | |
| | | | | | | | | |
| **Revenue, Adj** | **76,559.0** | **58,158.0** | **62,286.0** | **66,608.0** | **77,794.0** | **73,293.0** | **68,786.7** | **85,736.7** |
| *Growth %, YoY* | *-24.3* | *-24.0* | *7.1* | *6.9* | *16.8* | *-3.3* | *-11.6* | *24.6* |
| **Gross Profit, Adj** | **4,466.0** | **-5,685.0** | **6,517.0** | **3,530.0** | **7,724.0** | **2,295.0** | **1,331.7** | **12,104.3** |
| *Margin %* | *5.8* | *-9.8* | *10.5* | *5.3* | *9.9* | *3.1* | *1.9* | *14.1* |
| **EBITDA, Adj** | **8,987.0** | **-11,407.0** | **1,697.0** | **-2,219.0** | **-130.0** | **-5,795.0** | **-5,405.7** | **5,226.8** |
| *Margin %* | *11.7* | *-19.6* | *2.7* | *-3.3* | *-0.2* | *-7.9* | *-7.9* | *6.1* |
| **Net Income, Adj** | **5,631.2** | **-13,057.7** | **-2,923.4** | **-6,441.0** | **-3,485.2** | **-9,171.0** | **-9,929.0** | **329.2** |
| *Margin %* | *7.4* | *-22.5* | *-4.7* | *-9.7* | *-4.5* | *-12.5* | *-14.4* | *0.4* |
| **EPS, Adj** | **9.95** | **-22.96** | **-4.98** | **-10.83** | **-5.75** | **-14.85** | **-15.41** | **0.25** |
| *Growth %, YoY* | *-37.93* | *-1,764.29* | *78.33* | *-117.67* | *46.87* | *-111.18* | *-167.84* | |
| | | | | | | | | |
| **Cash from Operations** | **-2,446.0** | **-18,410.0** | **-3,416.0** | **3,512.0** | **5,960.0** | **-5,249.0** | | |
| **Capital Expenditures** | **-1,834.0** | **-1,303.0** | **-980.0** | **-1,222.0** | **-1,527.0** | **-2,013.0** | **-2,009.7** | **-2,039.4** |
| **Free Cash Flow** | **-4,280.0** | **-19,713.0** | **-4,396.0** | **2,290.0** | **4,433.0** | **-7,262.0** | **-13,421.8** | **-3,207.5** |

**IMPORTANT DISCLOSURES**